

COMMENT/By William M. Isaac

S&L Law Needs Revision To Accelerate the Cleanup

No one is satisfied with the pace of the savings and loan cleanup. The dissatisfaction stems, to some degree, from unrealistic expectations. The problems in the industry are massive, and we need to accept that it will require the better part of a decade to put them behind us. Having said that, there are some steps we can and should take to improve the workout process.

Part of the problem is the structure of the bailout program. When I testified before the House Banking Committee when the Financial Institutions Reform, Recovery, and Enforcement Act was being considered last year, I expressed three principal concerns.

A New Agency

First, instead of turning the problem over to the Federal Deposit Insurance Corp., a new bureaucracy — the Resolution Trust Corp. — was created. This, I felt, would inevitably lead to delays, infighting between the RTC Oversight Board and the RTC itself, and a lack of specific accountability.

Second, although the bailout plan might provide adequate revenues to absorb the ultimate

losses in the S&L industry, it seemed woefully inadequate in providing the working capital needed to carry the troubled assets pending liquidation.

Third, I was concerned about the provisions in the law that would diminish the value of an S&L charter (for example, raising the qualified thrift lender test, charging S&Ls significantly more than banks for deposit insurance, and failing to allow bank holding companies to take full advantage of a thrift's branching rights and other powers).

I am convinced that these deficiencies in the law will continue to hamper the S&L cleanup until they are modified by Congress.

Deals Done Badly

Another shortcoming is that the RTC is attempting to dispose of the S&Ls in an unrealistic fashion. Washington is up in arms about the S&L deals arranged at the end of 1988 by the Federal Savings and Loan Insurance Corp.

It is felt that those deals required too little private capital, were too tax oriented, and provided excessive asset protection that created little incentive to work the assets properly. It also appeared to many that the FSLIC deals were not open to all comers.



'The asset protection area is where the RTC is shooting itself in the foot.'

While it is understandable that the RTC would want to remedy these perceived deficiencies, the pendulum has swung too far in the other direction.

I have no quarrel with imposing higher capital standards, but we need to recognize that this will necessitate more financial assistance from the RTC to make the deals produce acceptable returns on investment. Nor do I have any quarrel with opening the bidding process. Moreover, I favor removing the tax benefits from the deals.

The asset protection area is where the RTC is shooting itself in the foot. The RTC Oversight Board has mandated that the RTC pass to the purchasers of failed S&Ls as much risk as possible on the S&Ls' assets. If it

were dealing with only a handful of S&Ls, the RTC might get away with imposing this requirement. But there are hundreds of S&Ls to be handled, and it's a buyers' market.

Particularly at a time when the regulators and analysts are beating up on banks that have any serious exposure in real estate, it's not realistic to expect bidders to be receptive to deals that create additional exposure.

Bidding Must Be Made Easier

The RTC needs to make it easier for people to bid. The RTC's current policies require bidders to spend considerable time and money on due diligence, with no guarantee their bids will be successful. Not many bidders are willing to do that.

The solution is to put the failed S&Ls up for bids as is, but then give the successful bidder the right, for six to 12 months after the acquisition, to sell to the RTC any assets deemed troubled under fairly liberal preestablished criteria.

The troubled assets could be sold to the RTC in exchange for promissory notes, which would reduce the RTC's need for cash. The acquirer would agree to work the troubled assets on behalf of the RTC under an incentive collection arrangement, with the RTC having the power to shift the servicing to another party if it becomes dissatisfied with the acquirer's performance.

The thrift cleanup is proceeding at a snail's pace, even though a lot of good people are working incredibly hard to get things done. The problems are structural and procedural and can be readily cured. In the meantime, the cost of the cleanup is increasing at the rate of \$10 million for each day we delay.

position from the National Association of Realtors, Citicorp, and some other large lenders.

— Phil Roosevelt

Freeman On His Own In Nation's Capital

Harry L. Freeman is back in the nation's capital with his own consulting firm, the Freeman Co., to represent multinationals in trade and other foreign economic issues.

Mr. Freeman resigned last year as executive vice president of American Express Co. after

accepting "executive responsibility" for the false-story campaign that tried to link former American Express official Edmond J. Safra to drug running and the Mob. The company indicated Mr. Freeman was not personally involved.

As an entrepreneur, Mr. Freeman will do many of the things he did for American Express: government relations, public and media relations, philanthropic and cultural programs, and strategic planning.

Personal goals are to improve U.S. trade statistics and Democrats' dialogue with business.

"Both are, certainly, long crusades," Mr. Freeman said. "One may even be possible."

— Robert Trigaux



Harry L. Freeman

Congress and the agencies on housing policies as well as bank and thrift regulations. Before 1986, Ms. Hutchinson lobbied the agencies for the Mortgage Bankers Association and worked for the Golembe Associates consulting firm.

Mortgage Bankers Fight Referral Fee

The Mortgage Bankers Association of America has hired some outside lobbying power to try to persuade Congress to prohibit realty brokers from earning mortgage referral fees.

The trade group has retained the Evans Group Ltd., a lobbying concern headed by former Rep. Thomas Evans, R-Del. Thomas H. Quinn, a partner with Mr. Evans' former law firm, O'Connor & Hannan, is assisting Mr. Evans.

The mortgage bankers have spent more than two years seeking a referral-fee ban from the Department of Housing and Urban Development. But HUD has not acted on the issue, prompting the trade group to shift its focus to Congress. The group has reportedly earmarked \$250,000 for a Hill fight.

The mortgage bankers claim it is a conflict of interest for realty brokers to receive fees for helping home buyers get mortgages. The group has met with stiff op-

portunity's tax-exempt status or merging its insurance fund into the bank and thrift funds.

After a legislative briefing by association lobbyist Charles O. Zuver, credit union members were deployed to Capitol Hill. Their mission: maneuver through their lawmakers' offices spreading the message that credit unions do not operate under the same rules as banks and thrifts because they are nonprofit organizations.

Hutchinson Gets Title At Mortgage Group

After more than five months, it's official: Suzanne C. Hutchinson will be named executive vice president of the Mortgage Insurance Companies of America. Ms. Hutchinson has been in the top job on an interim basis since September, replacing Steven P. Doehler, who resigned.

"After an extensive search, the MICA search committee determined that Suzanne was the most qualified person to take over the helm of the association," said the group's elected president, William H. Lacy.

Ms. Hutchinson joined MICA in 1986 as general counsel and staff vice president and lobbied



S.C. Hutchinson

THE LOBBYISTS/By Barbara A. Rehm

Credit Union Group Mans the Barricades To Preserve Status

For its annual government affairs convention, the Credit Union National Association turned its "Operation Grassroots" into a military mission.

Operation Grassroots is a campaign begun Oct. 30 to educate credit union members about bank and thrift efforts to bring the same regulation and taxation to all financial institutions.

In the fight to preserve the special status of credit unions, thousands of credit union executives and volunteers from around the country became willing recruits last week.

Revvng up the troops, CUNA's staff issued silver dog tags with red letters on one side, "Operation Grassroots — A Credit Union System Campaign," and blue letters on the other side, "Credit Unions, For People — Not Profits."

But the dog tags were just the beginning. Attendees also were outfitted with bright-yellow patches announcing that they are "Volunteers for Victory." Conference materials were supplied in Army-green pouches.

CUNA put its members on "full alert" that the government may tinker with the credit union system by revoking the indus-

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INTERNATIONAL NEWS

GLOBAL dispatches...

Canadian Imperial Seeking Higher Worldwide Profile

LONDON — Canadian Imperial Bank of Commerce Ltd. has built up a portfolio totaling \$7.65 billion in highly leveraged and real estate transactions; much of it in the United States, but its exposure to those troubled sectors is "well diversified," according to senior officials of the bank.

The Canadian bank, which has assets of \$84.7 billion, released key operating data to a group of institutional investors in London, part of a road show in Europe that is intended to raise the bank's profile internationally.

Canadian Imperial reported record basic earnings of \$644 million for 1989, up from \$500 million the preceding year. At the same time, it took provisions for 100% of its troubled loans to Third World countries, excluding those of Mexico, for which it set aside 45% of its remaining \$317 million of exposure.

R. Donald Fullerton, the bank's chairman and chief executive, told the London audience that Canadian Imperial's goal is "to be recognized clearly as a leader in the financial services industry in North America."

In highly leveraged transactions, it has \$2.2 billion in its portfolio, of which just over 60% is outstanding in the United States, said A.L. Flood, president of the corporate bank unit.

Mr. Flood did not disclose the Canadian bank's potential loan losses, although he said its leveraged lending, consisting of some 106 transactions, is "well diversified."

Supervision Is Noted

Mr. Flood commented: "This portfolio is closely supervised, and while some restructuring will no doubt take place, we do not envisage any situations that would have a long-term adverse impact on the bank."

In real estate lending, the bank has \$4.6 billion outstanding, of which \$2.71 billion represents commitments in Canada, \$1.77 billion in the United States, and some \$170 million in a number of other countries.

The "best estimate" at present is that loan losses should not exceed \$17 million on this particular portfolio, against \$10 million last year.

The Canadian bank continued to make its No. 1 priority improving the quality of its assets, Mr. Flood stressed. The Canadian bank's nonperforming loans, which peaked at \$2.1 billion in 1986, or the equivalent of 4.02% of its loan portfolio, are now down to \$653 million, or 0.96% of outstandings.

The bank, which was heavily embroiled in the provisioning for Canada's troubled Dome Petroleum, has now reduced sour loans to the point where it has achieved parity with the Canadian banking system in terms of nonperforming lending, according to the executive. The bank aims to be "an industry leader in asset quality. Our objective over the next three years is to reduce our loan losses to 0.25% of our portfolio," he said.

Mr. Flood also said the bank's asset sales and syndication team would continue to be very active, and that it played an important part in managing risk in the bank's portfolio.

— John Evans

... by country

CANADA

American Express Co. will be permitted to set up a bank in Canada before the government introduces new banking legislation, Junior Finance Minister Gilles Loiselle told the House of Commons in Ottawa.

Mr. Loiselle promised American Express last year it would receive its license by April 1990, but final approval was postponed until the government could complete new banking legislation.

Mr. Loiselle told Commons: "I am afraid [the new banking act] cannot be in place before American Express receives its license."

An American Express vice president, Nick Mancini, told the *Financial Post* that the company expected to receive final government approval in April.

— Reuters

THE PHILIPPINES

Overseas banks that are opting not to lend more money to the Philippines could find their decision affects their future busi-

ness dealings with the country, Finance Secretary Jesus Estanislao said.

"The Philippines cannot be taken for granted, and those who are going to support us will be treated very favorably," Mr. Estanislao said.

But for those who are not supportive, "We will consider them as not very friendly and therefore their long-term business relationship with the Philippines would be taken in light of their behavior," he told reporters.

— Reuters

BRAZIL

Brazil's key bank rate surpassed 100% a month for the first time, reflecting the country's losing battle against inflation.

The overnight rate for deposits at commercial banks was fixed by the central bank at 100.02%, up from Tuesday's 98.05%, the previous high.

The rate is stated in monthly terms even though it refers to one-day deposits.

— Reuters

U.S. Firms Lead in Global Merger Loans

By JOHN EVANS

LONDON — U.S. corporations were by the far the most active last year in raising international bank loans and credits to help finance mergers and acquisitions worldwide, according to the Bank of England.

The value of this type of financing more than doubled during 1989, to \$55.8 billion, with American companies raising \$33.7 billion, or 60% of the total.

U.S. concerns dislodged British companies, which have been among the most aggressive players in the cross-border mergers in recent years and the biggest international borrowers from banks for acquisition purposes, data from the British central bank showed.

British Led in 1988

In 1988, when total acquisition-related bank borrowings reached \$24.9 billion, British companies were responsible for \$14.1 billion, against a skimpy \$1.7 billion by U.S. corporations. Last year, the British raised \$10.1 billion.

In a separate report, U.S. corporations are shown to be the largest single corporate acquisition force in Europe, where \$55 billion in cross-border deals were concluded last year.

American companies spent \$17 billion to take over 185 European corporations and were responsible for more than half of the \$24.5 billion of acquisitions

International Financing for Mergers

In millions of dollars

Country of borrower	1988	1989
United States	\$33,703	\$1,705
Britain	10,059	14,141
Canada	2,100	150
Australia	1,247	2,311
France	789	2,447
Japan	NA	1,472
Other	7,946	2,367
Total	\$55,844	\$24,583

Source: Bank of England

in Britain, according to the *European Deal Review* publication of Translink, a U.S. company that monitors mergers and acquisitions in Europe.

Second Half Was Active

European activity by U.S. acquirers was concentrated in the second half, when U.S. companies concluded more than 100 acquisitions worth \$12.5 billion, including Ford Motor Co.'s purchase of Britain's Jaguar car company.

The Bank of England's own survey, in its quarterly economic bulletin, analyzed loan financings raised on an international basis, rather than in domestic banking markets.

Of last year's financing total, more than 80%, or \$46.2 billion, was denominated in U.S. dollars.

"Many of the credits arranged in the period 1987-89 were in-

tended to finance acquisitions of U.S. companies. Consequently, merger-related syndicated loans have been overwhelmingly dollar-denominated," the Bank of England noted.

Syndicated loans have proved an attractive vehicle for corporations to mount acquisitions, the bank added.

Such loans allow "borrowers to raise larger sums than they are able to obtain through either the Eurobond or the equity market over the short term, and to do so quickly. Moreover, borrowers may subsequently refinance such debt by utilizing other markets."

In turn, acquisition-related business has provided banks with major forms of income, either through advisory fees or interest charges and other fees from participating in financing packages, the bank said. □

Moody's Questions Impact of Debt Relief

By JAMES R. KRAUS

NEW YORK — Debt-reduction agreements similar to the one just signed between Mexico and its creditor banks are unlikely to solve the problems of Third World debtor countries, Moody's Investors Service said.

The rating agency said in a report this week that the reductions are too limited to give major debtor countries the financial relief they need. These countries also must drop the subsidies and deficit-ridden state corporations that distort their economies, it said.

Mexico's agreement, signed Sunday, has been criticized for failing to give that nation any real financial relief. It cuts principal on Mexico's foreign bank debt by about \$7 billion and an-

nual interest payments by \$1.4 billion.

However, Mexico is borrowing \$5.7 billion to buy zero coupon U.S. Treasury securities that will collateralize its own bonds. It is also borrowing \$1.2 billion more from banks.

Net Effect Lessened

As a result, senior bankers have estimated that Mexico is reducing its net annual interest payments by just \$1 billion.

This, Moody's noted, amounts to only a 10% cut in Mexico's interest bill on a total foreign debt of about \$100 billion.

Moody's said debt reduction agreements are also limited in value since they only reduce debt to foreign commercial banks, not to other governments

or to international lending agencies such as the World Bank.

Other Debt Untouched

"Even if debt-reduction agreements reduced the [commercial bank] debt [to] zero, you still have a very high level of other types of debt," said Guillermo Estebanez, a Moody's vice president and analyst of sovereign debt. Such agreements can only help countries, such as Chile, that have already moved toward economic reform, he added.

The rating agency ranked Venezuela as the next most likely candidate, because of its economic reforms, to benefit from debt reduction. Debt agreements will be of little benefit to Brazil or Argentina because of their increasing economic disarray, the agency said. □

Key International Rates *

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	2/07	2/08	1/31	2/07	2/08	1/31	2/07	2/08	1/31	2/07	2/08	1/31	2/07	2/08	1/31
United States	8.25	8.31	8.25	8.37	8.38	8.37	8.43	8.43	8.43	7.00	7.00	7.00	10.00	10.00	10.00
Japan	6.56	6.43	6.62	7.12	7.03	7.06	7.25	7.15	7.25	4.25	4.25	4.25	4.87	4.87	4.87
Canada	12.47	12.75	13.37	12.62	12.50	12.50	12.37	12.18	12.25	12.59	12.59	12.29	13.50	13.50	13.50
U.K.	15.06	15.06	14.93	15.18	15.18	15.12	15.18	15.18	15.06	14.45	N.A.	14.56	15.00	15.00	15.00
West Germany	8.06	8.06	7.93	8.50	8.25	8.25	8.75	8.50	8.50	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.12	8.87	9.12	9.81	9.62	9.68	9.87	9.68	9.56	6.00	6.00	6.00	11.25	11.25	11.50
France	10.57	10.50	10.75	11.06	10.93	10.93	11.31	11.06	11.12	9.50	9.50	9.50	11.00	11.00	11.00
Italy	13.67	13.50	13.50	13.00	13.18	12.87	13.06	13.18	13.00	13.50	13.50	13.50	14.00	14.00	14.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.49	14.80	8.78	9.70	7.40
6 to 12 months	8.76	14.20	8.89	9.17	7.44
12 to 24 months	9.27	13.25	8.66	9.25	7.12

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York.

New Definition Of Leverage Hits 2 Banks Hardest

By BARBARA A. REHM

WASHINGTON — Federal regulators' revised definition of highly leveraged transactions will take the biggest toll on First Chicago Corp. and Bank of Boston Corp., analysts said Thursday.

The clarified definition, released Wednesday, specified that loans financing leveraged transactions involving media and cable companies would be subject to disclosure. As heavy lenders to those industries, First Chicago and Bank of Boston will have to reclassify a substantial number of loans as risky.

The revision came in response to criticism that the definition released last October was too vague. But analysts said Thursday that the new guideline remained too general to truly gauge the riskiness of a bank's portfolio. They said the definition will result in disclosure of the quantity of loans financing leveraged transactions but will not touch on the quality of those credits.

Under the definition, loans that finance highly leveraged transactions must be disclosed if they result in the borrowing company's debt exceeding 75% of its equity or if they double the company's debt and exceed 50% of its capital.

No Curb to Risky Loans

The new definition does not curb risky loans. But the disclosure of a significant increase in the number of loans deemed risky by regulators could affect the way investors evaluate a bank.

The revised definition, while not substantially altering the original definition, will reduce the number of loans disclosed in most cases, bankers said.

But the number will go up for banks that have not already classified cable and media company loans as risky. An exclusion for those loans had been sought because those companies normally have high debt.

At the Bank of Boston, John Kahwaty, director of investor relations, acknowledged that the bank could have to double the amount of loans reported.

"Clearly this concerns us," he said. But he maintained that the riskiness of his bank's portfolio has not increased. "A definitional change," he said, "does not change the inherent risk of these loans."

Before the definition came out last October, Bank of Boston re-

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INSIDE NEWS

INTERNATIONAL

BORROWING from Western banks by the Soviet-bloc nations rose in the third quarter of 1989, but lending to China fell. *Page 10*

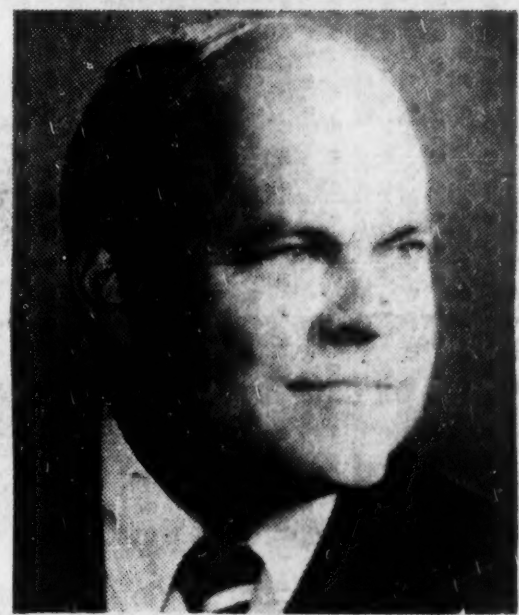
FINANCE

FEW ARE LAUGHING now at KeyCorp, the Albany, N.Y., banking company that has succeeded by acquiring banks far from home at distressed prices. *Page 16*

CONSUMER

U.S.-BASED CREDIT CARD companies are setting their marketing sights on the European Community's small-business market. *Page 6*

PEOPLE



WALTER A. DODS JR. was outsmarted, some observers say, in his deal to buy First Interstate of Hawaii from William E. Simon's merchant banking firm. *Page 2*

MORTGAGES

PUTTING HIS BANK on the Texas mortgage map has been Christopher T. Gilson's mission the past year, and data from his NCNB Corp. subsidiary say he's succeeded. *Page 7*

TECHNOLOGY

BANKS' RESEARCH emphases make their laboratories places where a Thomas Edison would be at home but an Albert Einstein would not, an *American Banker* survey found. *Page 3*

COMMENT

LETTING COMMERCIAL banks own corporate equity and underwrite securities could make them better monitors of commercial-loan credit quality, Sanford Rose writes. *Page 4*

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Bill to Seek Steep Penalty In Drug Cases

By BILL ATKINSON

WASHINGTON — Dissatisfied with the federal attack against the booming money-laundering business, Sen. John F. Kerry said Thursday he plans to introduce a sweeping bill that, among other things, would revoke the charters of banks connected to laundering.

At a news conference, the Massachusetts Democrat released a Senate report critical of the government's lack of progress in curbing money laundering. His legislation is expected to incorporate a number of the report's recommendations.

Among them is a recommendation that bank charters be revoked when an institution's senior officials or directors have knowledge of money laundering.

The report also urged the regulation of currency exchange houses, check cashing-businesses, and foreign transmittal agencies because they are increasingly being used to launder drug profits.

The report said the Senate Banking Committee should in-

See **SENATE** page 12

First Interstate Expects Shortfall on Stock Issue

By STEVE KLINKERMAN

DALLAS — First Interstate Bancorp said Thursday that it expects to raise only \$275 million, rather than \$400 million, in its stock issue. It also disclosed that regulators ordered a \$91 million cash infusion last month into its troubled Arizona unit.

The lower figure could put the company in the position of having to sell assets or issue additional securities, if earnings do not rebound before new capital guidelines take effect at the end of 1992. And some analysts were skeptical that even the \$275 million could be raised. (See related story on page 16.)

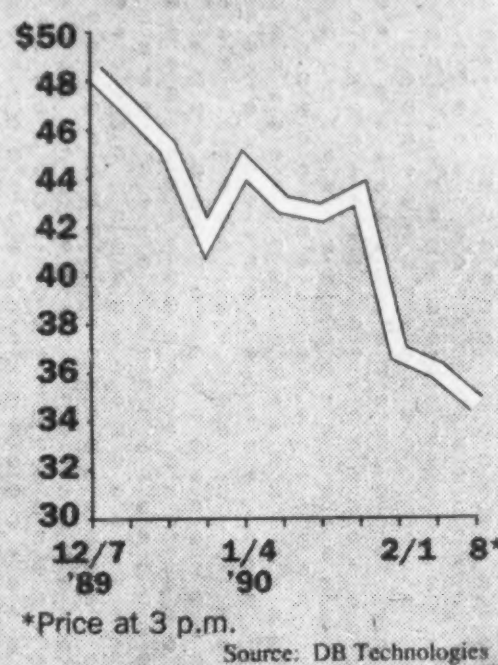
The disclosures were made in a second amended version of the company's stock registration statement, which was issued at the insistence of the Securities and Exchange Commission. The disclosures will allow First Interstate to proceed with its stock offering, which it expects to complete next week.

The statement said the SEC is continuing to investigate the circumstances surrounding First Interstate's fourth-quarter loan-loss provision of \$400 million.

Los Angeles-based First Interstate said in its second amended

Investors Lose Faith

Price of common stock at First Interstate



statement that it signed an agreement with the Office of the Comptroller of the Currency to maintain equity equal to 5% of assets at the Arizona unit.

First Interstate has already pumped \$61 million into its ailing Arizona unit, which lost \$153.8 million in 1989. The company said it will invest an additional \$30 million by June 30.

First Interstate also said that the \$275 million stock offering

See **FIRST** page 16

2 Bank Funds Bravely Target Leveraged Loans

By CAREN CHESLER-MARSH

Just when financing for highly leveraged transactions was getting tougher and tougher, two new bank loan funds decided to target HLTs as their primary investments.

The funds, which are seeking investors for a total of about \$1 billion in capital, could add some much-needed liquidity to the HLT market. The investment banking unit of Citicorp, in a joint venture with Boston-based Prospect Street Investment Management Co., is starting a \$500 million fund. Manufacturers Hanover Corp., along with Merrill Lynch & Co. and Capital Holding Corp., a Kentucky-based insurance concern, are now marketing the other fund of similar amount.

The funds provide vehicles for Citicorp and Manufacturers Hanover to dispose of some of their own highly leveraged loans, enabling them to purchase more. They can also produce huge returns for the equity holders. Both funds will probably be set up as limited partnerships.

While the concept of a fund

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FIRST UNION

February 1, 1990

Professional Counsel
To The First Union

On The Inside

• Bankers' American investors are being forced around by the nation's credit crunch—China City Bankers who lost to 25 that money to finance our trade and budget deficits. The U.S. stock and bond markets will be inflated by events abroad with foreign economic growth slowing. Beware this page.

• The Economy: The corporate side

Racial Overtones

by William R. Hackney, III, C.F.A.
Chief Investment Officer

The Huns and the Nips are at it again! Facing up conceptual barriers.

The folks from the land of Teutons and Nippon joined up their interest rates shortly to raise monthly payments.

Good. Our market ages dried it points to one day. You'd think people would know how deep the U.S. stock market had hit on 1/30. But no!

It looks to me that January's plunge in U.S. stock and bond markets is only a temporary detour.

RACIAL BACKLASH: This newsletter article stirred a storm.

Bank Officer's 'Humor' Forces Apology to Germans, Japanese

By KENNETH CLINE

ATLANTA — An attempt by an executive of First Union Corp. to add humor to an article about the impact of rising overseas interest rates backfired, and the company this week hurriedly apologized for racial slurs against the Japanese and German people.

The article in a monthly newsletter of the Charlotte, N.C.-based bank company referred to Japanese as "Nips"

and Germans as "Huns."

It was written by First Union's chief investment officer, William R. Hackney 3d, whose calls Thursday from the press were being handled by a bank spokesman.

Mr. Hackney referred at the end of the article to his "foregoing tongue-in-cheek assault." The article, headlined "Racial Overtones," began by stating: "The Huns and the Nips are at it again!"

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PEOPLE in the news

First Hawaiian Chief Sees Room for Profit in Simon Deal

By SAM ZUCKERMAN

SAN FRANCISCO — When First Hawaiian Inc. announced Tuesday that it will buy First Interstate of Hawaii from William E. Simon's merchant banking firm for an estimated \$135 million, some observers thought the young chief executive of the acquiring bank had been taken to the cleaners.

Former Treasury Secretary Simon paid less than half that amount for the banking company a year ago.

And Walter A. Dods, 48, had been made chairman and chief executive of First Hawaiian only four months earlier, following the death of John D. Bellinger, the autocrat who had dominated Hawaii's second-largest bank for 10 years.

Mr. Dods, however, bristles at the notion that he is overpaying for the \$812 million-asset First Interstate. "I know what I can take out on the operational side," he says. First Hawaiian has 169 current job openings, he states, so "synergy can occur without job loss."

The verdict is not in on the Simon deal. But the purchase may yet prove to be a good one for First Hawaiian, which has \$5 billion in assets. In the meantime, Mr. Dods is winning praise as a talented manager and salesman.

"He is a very strong chief executive, one of the most street-wise guys I know," said Philip Norris, Honolulu manager of Prudential-Bache Securities.

In his five years as president of First Hawaiian, Mr. Dods was called "Buffy" by his colleagues because he served as a buffer between them and Mr. Bellinger. When he took the top job, some viewed him as an untested underling who had never really exercised authority.

Mr. Dods joined First Hawaiian as a marketing specialist in 1968. A little more than a year later, as a young junior executive, he coined the advertising slogan, "First Hawaiian — the Bank that Says Yes," to promote the bank's image as a convenient, friendly place to get a loan. The idea was radical in banking's pre-sales-culture days.

"You can imagine how scandalized the senior people were," Mr. Dods recalls. "They wanted to change the slogan to 'The Bank that If You Give Us the Opportunity Might Consider Saying Yes.'" Mr. Dods overcame the skeptics, and his version remains First Hawaiian's theme to this day.

First Hawaiian has enjoyed 25 consecutive years of earnings growth. But, with 33% of commercial bank deposits, First Hawaiian finds itself lagging behind Bank of Hawaii's 45% share. Hence the acquisition.

Mr. Dods' strategy is "not to go to markets we're not familiar with, but to grow with our own market." That has not been a bad approach in a state where tourism and Japanese investment have brought rapid economic growth. First Hawaiian assets climbed 20% in the past year, while nonperformers remained an enviable 0.04% of total assets.

NEWS briefs

NY Thrift Files Papers To Exit Home Loan Bank

NEW YORK — American Savings Bank has taken another step toward exiting the Federal Home Loan Bank System.

The White Plains, N.Y., thrift, which first expressed interest in leaving the system last year, said Thursday it had filed a notice to withdraw from the Federal Home Loan Bank of New York. The filing follows the thrift's conversion in December from a federal to a state charter.

The Home Loan Bank System's role in the thrift bailout has caused American Savings to be concerned about the future value of its \$24.6 million in stock in the Home Loan bank, said Robert Hughes, the thrift's chief financial officer.

Soviets May Find a Role In East European Bank

BRUSSELS — The countries establishing a new East European development bank may con-

sider allowing the Soviet Union to take a stake but not borrow from the bank for some time, a senior European banker said.

Ernst-Guenther Broeder, president of the European Community's European Investment Bank, said the idea may be discussed by nations drawing up statutes for the bank.

The status of the Soviet Union is a main sticking point in talks in Paris this week to form the European Bank for Reconstruction and Development.

First Eastern Is Set to Buy Atlantic Financial Offices

WILKES-BARRE, Pa. — Atlantic Financial Savings and the Resolution Trust Corp. confirmed their intent to proceed with the sale of nine branches to First Eastern Bank as announced Dec. 22.

First Eastern, a national bank with headquarters here, has about \$2.3 billion in assets. Atlantic Financial Savings is based in Bala Cynwyd, Pa.

Bullock Hopes to Keep Connecticut Franchise

By JED HOROWITZ

NEW YORK — H. Ridgely Bullock, the acting head of Bank of New England Corp., said the beleaguered company has not yet received bids for its Connecticut Bank and Trust Co. unit and prefers not to sell it at the distressed price it probably would fetch today.

He conceded that regulatory and market pressures may not give him the option to refuse a strong bid for the Connecticut franchise. But, in a telephone interview Thursday, the interim chairman was optimistic about his ability to save the \$29 billion-asset institution from the clutches of regulators.

He underscored the point by saying he is actively campaigning for the full-time job of chief executive.

"Why? Because that's where the money is," Mr. Bullock said, quoting bank robber Willie Sutton. "If carried out successfully, this could be very personally rewarding."

Since being named interim chairman and chief executive officer less than two weeks ago, the 55-year-old lawyer and investment banker has aggressively touted Bank of New England's ability to restore the confidence of depositors and investors.

Fast Start on Rebuilding Plan

He also has ousted four senior executives, and simultaneously managed the sale of \$1.6 billion of assets — a fast start on a plan to shed \$6 billion in order to replace lost liquidity and build eroded capital.

Mr. Bullock's concern that the Connecticut franchise might be sold too cheaply was underscored Thursday when investors spurned an announcement that BancNewEngland Leasing Group was sold at a premium of \$92.5 million. The price was \$17.5 million less than expected.

Bank of New England's stock fell as much as \$1.50 during the day. In late afternoon trading on the New York Stock Exchange,



H. Ridgely Bullock
Bank of New England Corp.

it changed hands at \$5.37, off 50 cents from Wednesday's close.

Bank of Tokyo bought the leasing unit as well as \$500 million of the Boston bank's lease portfolio and servicing rights on \$1 billion of leases that Bank of New England is retaining. "With all they were seeing and hearing about us, they were concerned," said spokeswoman Marcia Ryan, explaining the lower sale price. She also noted that Bank of New England is eager to maintain "long-term good relations" with the Asian bank.

"The bloom popped today because it was the first negative story to come out in two weeks," said Gerard Cassidy, a Maine-based analyst for Tucker Anthony & Co. "It's less than expectations and the earnings or lack thereof are coming out next week. You still have a very troubled bank, and reality is coming back into the marketplace."

Link to New England Economy

Mr. Cassidy said the stock price had been boosted recently by Mr. Bullock's enthusiasm, the fast pace of asset sales, and the hefty 27% premium the bank received from Citicorp for its credit card portfolio. "But the New England economy hasn't materially changed, and the bank's outlook is highly dependent on that," the analyst said.

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Georgia Bank Boosts Image In Thrift Deal

By KENNETH CLINE

ATLANTA — First American Bank of Georgia may go a long way toward changing its image as a perennial also-ran in Atlanta banking with its announcement Wednesday it will acquire 22 thrift branches.

Analysts warned, however, that the deal could face regulatory obstacles.

The 22 branches now belonging to Fulton Federal Savings Bank would boost First American's branch total to 74, moving it ahead of First Union National Bank of Georgia — with 59 branches — to the fifth-largest retail presence in Atlanta.

Move to 4th Place

The acquisition would boost First American's share of deposits in the eight-county region to more than 8%, improving its market share from seventh to fourth place.

As part of the deal, First American is to pay a premium of \$50 million to assume \$917 million in deposits, as well as related lease obligations. Fulton Federal, which is severely undercapitalized, would be left with 15 branches in middle and south Georgia.

The two companies are still negotiating a transfer of assets, but Fulton Federal president Charles T. Cantrell said his bank would retain most of its residential loan portfolio and mortgage-backed securities, probably leaving First American with consumer and commercial loans.

The \$1.7 billion-asset First American is a subsidiary of Washington-based First American Bancshares.

The Fulton Federal deal fits in with First American's strategy of strengthening retail operations while deemphasizing real estate lending. Chief executive Guy W. Freeman said a major benefit of the announced deal is putting First American in three counties — Bartow, Fayette, and Henry — where it now lacks a presence.

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